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REPORT OF ESCAP's SPECIAL BODY ON LEAST DEVELOPED AND LANDLOCKED DEVELOPING COUNTRIES ON ITS FIFTH SESSION*

SUMMARY

In preparation for the Third United Nations Conference on the Least Developed Countries, the Special Body on Least Developed and Landlocked Developing Countries considered the implementation of the Programme of Action for the Least Developed Countries for the 1990s as presented in document E/ESCAP/SB/LDC(5)/1. The Special Body adopted the recommendations at both the national and international levels with a special focus on social issues, infrastructure, trade and finance for development for submission as the regional input to the Third United Nations Conference on the Least Developed Countries.

The Special Body reviewed the programme of work for the biennium 2000-2001. It noted with appreciation the multifaceted activities implemented by the secretariat for least developed and landlocked developing countries. It recognized the important role of the regional commissions in undertaking activities for the benefit of these countries and urged the secretariat to develop and implement its future programme of work in line with the programme of action expected to be adopted at the Conference.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION OR BROUGHT TO ITS ATTENTION

A. Implementation of the Programme of Action for the Least Developed Countries for the 1990s and recommendations for future action

1. The Special Body had before it, under agenda item 4, document E/ESCAP/SB/LDC(5)/1. It commended the secretariat on the excellent quality of the document and generally agreed with the assessment that the development goals envisaged in the Programme of Action for the 1990s remained substantially unfulfilled in the Asian and Pacific least developed countries (LDCs). The Special Body adopted the recommendations contained in the document with certain amendments, as presented below, and asked the Commission to endorse the recommendations at its fifty-seventh session.

1. Social issues

Introduction

2. It was recognized that the LDCs of the Asian and Pacific region showed considerable variations in terms of social, economic and cultural conditions. While recognizing those differences, the Meeting adopted the following recommendations for improving the performance of that group of countries in the social sectors, on the clear understanding that their implementation would have to be fine-tuned to meet the specific needs and priorities of each country and that the recommendations were by no means exhaustive. It was also recognized that social development required action in a wide range of areas, such as education, health, poverty alleviation, population, governance and the empowerment of women. The discussions and recommendations covered two major areas, education and health.

Action at the national level

3. There was general agreement that the appropriate development of education and health would have a positive impact on economic growth with a certain gestation period. Moreover, universal access to basic education and health services was a development objective in its own right. Governments should, therefore, put the utmost emphasis on expanding the coverage of those services to the population as a whole. In that context, governments should adopt all possible measures to increase enrolment and literacy rates, including through legislation, to make primary education compulsory within such a time frame as was determined appropriate, particularly in countries where the current enrolment rate was relatively low. Governments should also provide basic health services to all.

4. While expanding the coverage of primary education, attention should be paid to the quality of education. Efforts should be made to minimize wastage through, for example, grade repetition and drop-outs.

5. In addition to primary education, LDCs needed to expand education at the secondary and tertiary levels. Particular emphasis should be given to vocational and technical education so as to ensure the supply of skilled human resources. It was also noted that manpower requirements changed over time as an economy underwent structural changes and therefore the

balance between various levels and types of education should be kept under review to ensure that the graduates of the educational system met the changing requirements of the economy.

6. In order to expand the coverage and improve the quality of education and the health system in rural areas, national governments should make efforts to ensure the availability of trained teachers, doctors, nurses, paramedics and other required inputs. Furthermore, appropriate incentives should be provided to motivate the relevant personnel to work in rural areas.

7. In many LDCs, the access of women to social services was significantly less than that of men. Governments should give particular emphasis to the enhanced access of women to education and health services.

8. The need for greater allocation of financial resources to education and health was strongly emphasized. The options could include raising more revenue and intersectoral reallocation within government budgets. There was also an urgent need for enhanced official development assistance (ODA) and debt relief for LDCs, as envisaged under the Copenhagen Declaration and Programme of Action of the World Summit for Social Development, to enable them to allocate greater financial resources to priority social sectors.

9. To ensure the sustainability of social services, there should be adequate provision for the required current expenditure to meet personnel, maintenance and other operational costs. Such current expenditure had a clear developmental impact. Aid agencies should take that aspect into account in prescribing fiscal deficit ceilings for LDCs in consultation with the country concerned.

10. In certain aspects of education and health services, LDCs might consider cutting back on subsidies that did not benefit the poor. In circumstances where the reduction of subsidies affected the poor, their access to social services should be protected through appropriate means, such as the provision of scholarships or loans for higher education.

11. In creating social infrastructure, efforts should be made to encourage the participation of non-governmental organizations, community-based organizations and the private sector where those entities were in a position to increase the availability and improve the quality of social infrastructure. It was observed that those organizations had been quite effective in some countries in delivering basic education and health services to the poor and rural areas and the private sector had played a useful role in the provision of post-secondary education. The need for putting in place appropriate policy frameworks to ensure that those agents maintained the requisite quality of services provided by them was emphasized. The view was also expressed that in securing the participation of the above organizations, a balance should be maintained between their role as agents of the delivery of social services and their advocacy and watchdog role on issues of public concern.

Action by the international/donor community

12. It was noted that poor physical infrastructure was a major constraint on the effective delivery of social services in LDCs. The international community should therefore pay greater attention to the financing of infrastructure development in those countries.

13. In order to provide adequate resources for social development in LDCs, the international community should fulfil the provisions contained in various declarations and programmes of action emanating from United Nations-sponsored global conferences, such as the World Summit for Social Development, the Global Conference on the Sustainable Development of Small Island Developing States, and the Second United Nations Conference on the Least Developed Countries.

2. Infrastructure issues

Introduction

14. Economic infrastructure encompassed a large number of areas. Those included various modes of transport, such as roads, railways, inland waterways, inter-island shipping, civil aviation, ropeways, energy and telecommunications. The relative importance of those various elements of economic infrastructure varied from country to country and therefore action to improve the economic infrastructure would have to be tailored to meet the specific needs of each LDC. The discussions at the Meeting focused largely on the transport and communication sectors. It was recognized that transport and communications created broad-based opportunities for income generation and thereby promoted economic growth and alleviated poverty. Furthermore, transport, communications and energy networks could help in the effective delivery of social services. The following are some of the recommendations which may apply to a cross-section of LDCs.

Action at the national level

15. The externalities associated with transport and communication services, long gestation periods, and a relatively underdeveloped private sector in LDCs required governments to play a major role in the provision of economic infrastructure. At the same time, the paucity of financial as well as human resources in the public sector made it imperative to seek the active participation of both domestic and foreign private investors in infrastructure.

16. In determining the role of the private sector in the provision of infrastructure, it was critically important to ensure that the decision-making process was transparent and public interest duly protected.

17. Governments had an important role to play in encouraging private sector and community participation in infrastructure. They had to provide a conducive policy framework, including on issues such as debt-equity ratios, and access to capital from financial institutions on reasonable terms from both home and abroad.

18. The maintenance of infrastructure facilities was crucial for optimal use. Governments therefore needed to devote greater resources to the maintenance of the publicly provided infrastructure. In that connection, national governments might consider creating maintenance funds if their budgetary practices permitted. One option in that regard could be the earmarking of a certain portion of user fees, wherever it was feasible and desirable to levy such fees. The involvement of local government institutions in maintaining the infrastructure also deserved encouragement.

19. The importance of the availability of skilled manpower for establishing and maintaining, as well as restructuring, the institutions responsible for the planning and regulation of infrastructure was emphasized. In that regard, it was noted that the educational system should be geared to the provision of adequate skilled personnel for infrastructure. It was further underscored that the application of computer-based information technology was crucial for increasing the efficiency of infrastructure, particularly in railways and telecommunication systems. It was, therefore, essential to augment the availability of personnel skilled in information technology.

20. With regard to infrastructure planning, it was suggested that transport and communication networks should be planned taking into account the regional context, where regional networking was feasible and beneficial to all participating countries.

21. Rural infrastructure should receive particular attention in order for that sector to make an effective contribution to poverty alleviation and employment in LDCs.

Action by the international/donor community

22. The international community should provide a higher level of financial resources to LDCs to meet their infrastructural needs. Here again, the need for the fulfilment of obligations under the relevant declarations and programmes of action emanating from the various global conferences sponsored by the United Nations during the 1990s was emphasized. The international community could also encourage private sector participation in infrastructure through co-financing and playing a catalytic role in attracting FDI.

23. Recognizing that financial resources was not the only requirement for the development of infrastructure in LDCs, the international community and donor agencies were urged to provide technology and technical assistance for the development of human resources.

24. Where countries of the region agreed, the international community should facilitate regional cooperation with a view to linking the transport and telecommunication networks of LDCs with those of neighbouring countries. That was particularly vital for landlocked and island countries, to enable them to engage effectively in international trade and tourism.

25. Recognizing that, in spite of best efforts, private sector participation in infrastructure development in LDCs, especially in providing access to remote, sparsely populated and mountainous areas, would be difficult to obtain, it was suggested that the international community should set up a special fund for infrastructure development.

3. Trade issues

Introduction

26. The marginalization of LDCs, including those in Asia and the Pacific, from the mainstream of a rapidly globalizing world economy was reflected in their low and declining share in world trade, investment and output. The poor trade performance of those countries in global trade in the last two decades was a result of supply- and demand-side constraints affecting their trade and competitiveness. The structure of exports of Asian and Pacific LDCs showed that more than half the exports came from food and agricultural raw materials and only

about a third from the manufacturing sector. However, it was noted that a number of the countries depended heavily on foreign exchange earnings from the service sector. In order to reverse that marginalization and ensure the meaningful and beneficial integration of LDCs into the global economy and the multilateral trading system, concrete action by those countries and their development partners was required to help to strengthen the supply capacity of LDCs through the development of physical and institutional infrastructure, human resources development, unencumbered and improved market access and retained flexibility in the use of appropriate policy instruments to strengthen the competitiveness of sectors of strategic importance for the development of LDC trade. In addressing the above issues, the following recommendations were made.

Action at the national level

27. LDCs should continue and deepen efforts to improve their macroeconomic conditions and sectoral policies to enable them to reap the benefits of globalization as well as regional trading opportunities.

28. Physical infrastructure should be developed.

29. Efforts should be intensified to diversify the export structure and export markets.

30. Efforts should be strengthened to develop human resources and promote entrepreneurial capacity.

31. The technological base should be upgraded.

Action at the international level

32. Asian and Pacific LDCs are calling on their trading partners to provide bound, duty- and quota free access to all products exported by LDCs.

33. Trade preferences in favour of LDCs should be provided on a non-discriminating basis.

34. Rules of origin should be simplified and harmonized to promote LDC exports.

35. Effective special and differential measures in favour of LDCs should be made an integral part of the multilateral trading system.

36. Careful consideration should be given to preferential market conditions for LDCs with respect to the movement of natural persons.

37. Measures should be taken to ensure remunerative commodity prices and the stabilizing of commodity trade.

38. There should be policy coherence on the part of development partners in their responses to the market access and supply capacity concerns of LDCs.

39. There should be a longer period of transition in the implementation of WTO agreements.

40. Effective implementation of the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries should be accelerated.

41. Support should be intensified for the building up of capacity in LDCs to undertake multilateral trade negotiations and ensure adequate representation in WTO trade negotiations.

42. Multilateral trade rules governing regional trade arrangements should be complementary to regional integration efforts and provide adequate flexibility to the Asian and Pacific LDCs in adjusting to a more liberalized and competitive trade regime under those arrangements.

43. There should be fast-track accession to WTO without LDCs being asked to assume obligations or commitments that went beyond what was applicable to LDC members of WTO.

4. Financing for development

Introduction

44. It was recognized that development required financing, not merely of investment but also of many forms of current expenditure with important implications for development (for example, salaries of teachers and health personnel). Nevertheless, the current low level of investment in most LDCs highlighted the need for increased financing of investment in order to accelerate their economic growth. The two major sources of investment financing were domestic (public and private) and foreign savings (in the form of ODA and inflow of private external capital). It was necessary to tap both of those sources to bring about any noticeable increase in the investment level in LDCs. Some recommendations with respect to both of those sources are presented below.

(a) Domestic savings

Action by national governments

45. National governments of the LDCs should undertake measures to increase government savings. Efficiency of expenditure should be increased through better intrasectoral management and redefinition of intersectoral priorities so as to devote greater resources to sectors which yielded higher social returns. National governments needed to demonstrate stronger political will to widen the tax base and to enforce the tax regimes more effectively. The efficiency of tax administration should be enhanced through appropriate measures, including the use of information and communication technology.

46. Governments might review the provision of fiscal incentives and tax exemption or allowances and identify opportunities for increasing tax revenue through the revision of those measures.

47. Governments might also review the structure of subsidies and of fees and prices charged for publicly provided goods and services and make use of opportunities for increasing non-tax revenue.

48. State enterprises should be privatized, wherever feasible and desirable, in order to prevent a drain on government resources. Otherwise, the operational efficiency of public enterprises should be increased through such means as greater delegation and operational autonomy, improved motivation of personnel and other appropriate measures.

49. It was recognized that the determinants of private saving were complex. Those included such factors as the level and growth of per capita income, macroeconomic conditions, the yields

on and the diversity of saving instruments, outreach of financial institutions as well as cultural factors. Nevertheless, there was certain action that governments could take to potentially increase the level of savings and create opportunities for intermediation from savers to investors.

50. Positive rates of return on savings should be ensured, particularly through the establishment of low inflation regimes. That would ensure that the nominal rates of interest were not too high to discourage private investment.

51. The viability of and confidence in financial institutions should be maintained or strengthened, particularly through the implementation of effective prudential regulation.

52. Efforts to enhance the outreach of formal financial institutions should be complemented by informal financial institutions. In that context, particular mention was made of the possibility of using microfinance schemes as a conduit for mobilizing savings. There was also need for an appropriate regulatory and policy framework to ensure the viability of microcredit schemes, while protecting the interests of the depositors.

53. The scope of expanding the coverage of insurance and provident fund schemes and using them as a channel for mobilizing private savings should be explored.

54. Wherever feasible, the potential for capital market institutions should be exploited.

55. It was observed that the mobilization of domestic resources in LDCs was partly dependent on tax revenue generated by import duties. The liberalization of trade regimes should take that aspect into account.

Action by the international community

56. The international community could help LDCs in mobilizing domestic savings by providing need-based, country-specific technical assistance, facilitating access to good practices in other countries and promoting exchange of experience, particularly among neighbouring countries.

(b) Official development assistance

Action at the national level

57. While the perception of LDCs with respect to increasing the level of ODA was obviously valid, emphasis was also placed on enhancing the efficiency of utilization of such assistance. From that perspective, governments of LDCs could implement a number of actions, including strengthening domestic capability for planning and project implementation, improving monitoring and evaluation, ensuring better institutional coordination among various government agencies involved in negotiating and utilizing ODA, and achieving greater decentralization of project implementation where feasible and desirable.

Action by the international community

58. Many actions were needed by the international community in the area of ODA, some of which were noted below.

59. The international community was urged to fulfil the ODA targets embodied in the Programme of Action for the Least Developed Countries for the 1990s.

60. Dialogue should be promoted to establish coherence among donors in such areas as ODA practices and trade regimes of the donor countries. Furthermore, efforts should be made to ensure recipient country ownership of policy conditionalities as well as projects financed from ODA. Such ownership should be based on genuine dialogue and a spirit of partnership between the donors and the recipient countries.

61. The international community should continue dialogue with LDCs on such issues as grant component, tied purchase, and financing of recurrent costs, and to bring about improvements in those areas.

62. The rationale for ODA and debt relief was rooted in the structural constraints of LDCs. Therefore, despite the fact that most of those countries in Asia and the Pacific had succeeded in achieving higher growth rates than elsewhere and in keeping debt-servicing ratios relatively low, the level of ODA and their eligibility for debt relief should be considered.

(c) Foreign direct investment

Action at the national level

63. It was noted that, despite the liberalization of foreign direct investment (FDI) policy regimes, FDI flows into most LDCs remained minuscule. There were many determinants of locational attractiveness to induce FDI. Those included the size and growth of the domestic market, political and economic stability, the overall economic policy framework, FDI-related policies, resource endowments, infrastructure, labour skill and work discipline. LDCs should examine in depth the various elements that determined locational advantages and introduce measures to effect improvements in areas amenable to policy action.

64. LDCs might engage in focused promotion to attract FDI in areas where they possessed comparative advantage.

65. LDCs should simplify administrative procedures and improve the efficiency of institutions which impinged on the establishment and operation of enterprises by foreign investors.

66. LDCs might also negotiate mutually beneficial investment and avoidance of double taxation agreements with the home countries of foreign investors.

Action by the international community

67. The international community could help to facilitate the flow of information on the opportunities for profitable investments in LDCs. In many instances, potential investors did not possess adequate information on such opportunities.

68. A number of home countries as well as multilateral institutions provided some insurance coverage for foreign investors. The scope of such insurance coverage might be expanded with special provisions for investment in LDCs. The international community could also contribute to the increased flow of FDI in those countries through such measures as co-financing, enhanced market access for export from such countries and strengthening infrastructure facilities in them.

69. Regional cooperation could help increase FDI flows in LDCs.

70. In order to increase the developmental impact of FDI, the international community should provide technical assistance to strengthen the negotiating capacity of LDCs.

B. Special problems of small island least developed countries

71. The Special Body noted that small island developing states were extremely vulnerable to external shocks and natural disasters, including climatic change and sea-level rise. In recognizing the particular vulnerabilities of those LDCs, special bilateral and multilateral support measures should be provided to those countries to enable them to cope with structural handicaps.

C. Monitoring and implementation

72. The Special Body observed that there should be a mechanism for monitoring the implementation of a new programme of action that was likely to be adopted at the Third United Nations Conference on the Least Developed Countries to be held in Brussels in May 2001. The regional commissions should be closely involved in that exercise and develop a programme of work in support of the least developed countries in line with the new programme of action.

II. PROCEEDINGS OF THE SPECIAL BODY AT ITS FIFTH SESSION

A. Implementation of the Programme of Action for the Least Developed Countries for the 1990s

73. The Special Body noted that some of the LDCs in the Asian and Pacific region had achieved considerable progress in terms of certain economic and social indicators over the past decade. Nevertheless, those countries as a group faced severe structural constraints in accelerating their development and might become further marginalized because of the quickening pace of globalization and the increasing digital divide between developed and developing countries. It was, therefore, imperative that the international community pay much greater attention to the development needs of LDCs. In that context, the Special Body also expressed the view that the recommendations which would form the regional input into the next programme of action for LDCs should be realistic and implementable and enjoy wide support from all groups of countries. It was further observed that the LDCs themselves should pursue growth-oriented development strategies that also paid adequate attention to social development.

74. The Special Body requested the secretariat to take note of the revisions in some statistical indicators reported in document E/ESCAP/SB/LDC(5)/1 proposed by the representatives of Cambodia, the Lao People's Democratic Republic and Maldives. Those amendments were noted by the secretariat.

B. Implementation of the programme of work, 2000-2001

75. During the deliberations on item 5 of the agenda, the Special Body had before it document E/ESCAP/SB/LDC(5)/2, "Implementation of the programme of work, 2000-2001". The Special Body noted with appreciation the various activities implemented by the secretariat for the least developed and landlocked developing countries under the programme of work for 2000-2001 and endorsed the draft programme of work for 2002-2003. It recognized the important role of the regional commissions in undertaking activities for the benefit of LDCs and urged the secretariat to develop and implement its programme of work in line with the new programme of action expected to be adopted at the Third United Nations Conference on the Least Developed Countries.

76. The Special Body emphasized that the programme of work should continue to focus on human resources development, and that assistance to least developed and landlocked developing countries should take into consideration the real needs of those countries, their absorptive capacity and their distinctive characteristics. The Special Body welcomed offers of assistance from other developing countries based on appropriate technology aimed at human resources development. In view of the usefulness of such technical cooperation among developing countries (TCDC) as a means of South-South cooperation, the Special Body observed that activities implemented through those TCDC modalities should have been reflected in the secretariat document. In view of the limited resources available for the implementation of the programme of work, the Special Body suggested that ESCAP should seek closer collaboration with the Asian Development Bank as well as the private sector in the implementation of its activities.

C. Other matters

77. The Special Body took note of the communiqué of the first Ministerial Meeting of the Group of Landlocked Developing Countries, which had been held in New York on 18 September 2000. It expressed its support for the convening of a ministerial meeting on transit transport issues in 2003 as that would provide an important opportunity to chart and adopt a collective action programme to further develop the transit transport systems of landlocked and transit countries so as to enable them to participate in the international trading system.

78. Noting that the current session of the Special Body was the last in which Mr Faisal Ahmed Choudhury, head of the delegation of Bangladesh, would participate, the Special Body expressed appreciation of his contribution to its deliberations.

79. The Special Body took note of the impending retirement of Mr Azizul Islam, Director of the Development Research and Policy Analysis Division of ESCAP. It commended the dedication with which he had made efforts to further the cause of LDCs in both ESCAP and other international forums, and wished him a happy retirement.

III. ORGANIZATION OF THE SESSION

A. Opening of the session

80. The fifth session of the Special Body on Least Developed and Landlocked Developing Countries was held in Bangkok on 20 and 21 February 2001.

81. In his opening address, the Executive Secretary observed that the economic and social progress in least developed countries of the region had been rather modest during the past decade. Moreover, the progress achieved so far rested on the fragile foundations of a narrow economic base, an undiversified export structure and a high degree of vulnerability to external shocks. He drew the attention of the Special Body to a few areas which deserved urgent attention. Universal access to basic education and health, and equal opportunities, were prerequisites for fostering development. Improved infrastructure was another key input, as it lowered the cost of production of goods and services, facilitated the flow of information and improved access to social services. Further, to complement the trade liberalization and export promotion initiatives of LDCs, international support was needed for export diversification, the introduction of technology and strengthened supply capacity. Finally, financing for development from official and private sources was essential in order to fill the gaps between investment needs and domestic savings, government expenditure and revenue, and import requirements and export receipts. The Executive Secretary requested the representatives to focus on the recommendations, which could serve as the regional input to the Third United Nations Conference on the Least Developed Countries. The Executive Secretary assured the Special Body that he would do his utmost to ensure that the regional input received the attention it deserved at the Conference.

B. Attendance

82. The session was attended by representatives of the following members and associate members of the Commission: Armenia, Bangladesh, Bhutan, Cambodia, China, Democratic People's Republic of Korea, India, Indonesia, Islamic Republic of Iran, Japan, Kazakhstan, Kiribati, Lao People's Democratic Republic, Maldives, Nepal, Netherlands, Pakistan, Republic of Korea, Russian Federation, Samoa, Solomon Islands, Thailand, Tuvalu, United States of America and Vanuatu.

83. Representatives of the United Nations Conference on Trade and Development, United Nations Development Programme, International Labour Organization, Food and Agriculture Organization of the United Nations and Asian Development Bank also attended the session.

C. Election of officers

84. The Special Body elected HE Dasho Ugyen Tshering (Bhutan), Chairperson, Mr Souphanh Keomixay (Lao People's Democratic Republic), Vice-Chairperson, and Ms Noumea Simi (Samoa), Rapporteur.

D. Agenda

85. The Special Body adopted the following agenda:

1. Opening of the session.

2. Election of officers.
3. Adoption of the agenda.
4. Implementation of the Programme of Action for the Least Developed Countries for the 1990s.
5. Implementation of the programme of work, 2000-2001.
6. Other matters.
7. Adoption of the report.

E. Adoption of the report

86. The Special Body adopted its report on 21 February 2001.